Department of Finance and Administration

For the Year Ended
June 30, 1997

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August 7, 1998

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable John Ferguson, Commissioner
Department of Finance and Administration
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Finance and Administration for the year ended June 30, 1997.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Department of Finance and Administration's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Finance and Administration is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal controls and/or instances of noncompliance to the Department of Finance and Administration's management in a separate letter.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/th
97/117

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit

Department of Finance and Administration

For the Year Ended June 30, 1997

AUDIT SCOPE

We have audited the Department of Finance and Administration for the period July 1, 1996, through June 30, 1997. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1997, and the Tennessee Single Audit Report for the same period. These areas included the statewide controls administered by the Department of Finance and Administration and other state agencies. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment records and billing at the Office for Information Resources, the Budget Division, billing methods in the Division of Resource Development and Support, State Building Commission contracts as well as a sample of other contracts, the Division of Real Property Management and Capital Project Management, contingent revenue, and utilization of the department's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Also, a special investigation of activities at the Arlington Developmental Center was conducted. The finding resulting from this investigation is included in this report.

AUDIT FINDINGS

The Tennessee Insurance System Has Significant Problems*

Daily activity recorded in the Tennessee Insurance System (TIS) does not agree with the corresponding State of Tennessee Accounting and Reporting System (STARS) accounting transactions, nor can it be completely reconciled. Although the accounting has been corrected as much as possible, all information may not be correct on STARS because certain TIS history is not available (page 4).

Controls Over Security for the Tennessee Insurance System Need Improvement
Controls over security for the Tennessee Insurance System (TIS) are lacking. Two employees have unnecessary access to security maintenance screens, and two other employees have excessive access allowing them to add, update, and delete users' security access. Also, security authorization forms identifying approved access for users of the system were not maintained (page 7).

Arlington Developmental Center Staff Divided Purchases to Circumvent State Purchasing Policies and Procedures*
On four occasions, center staff divided large furniture purchases to make them appear as if they were individual purchases of less than $5,000.00, thus circumventing state purchasing policies and procedures (page 12).

The Department Has Not Complied With Executive Orders 9 & 10
Although the orders transferred all related functions of all the developmental centers and offices of community services (e.g., fiscal, personnel, and property and equipment), the only apparent change has come in how management decisions regarding Arlington Developmental Center are made and who makes them. The operations and management of the other developmental centers and the offices did not significantly change after the executive orders were issued (page 13).

* This finding is repeated from the prior audit.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Department of Finance and Administration
For the Year Ended June 30, 1997

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INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Finance and Administration. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

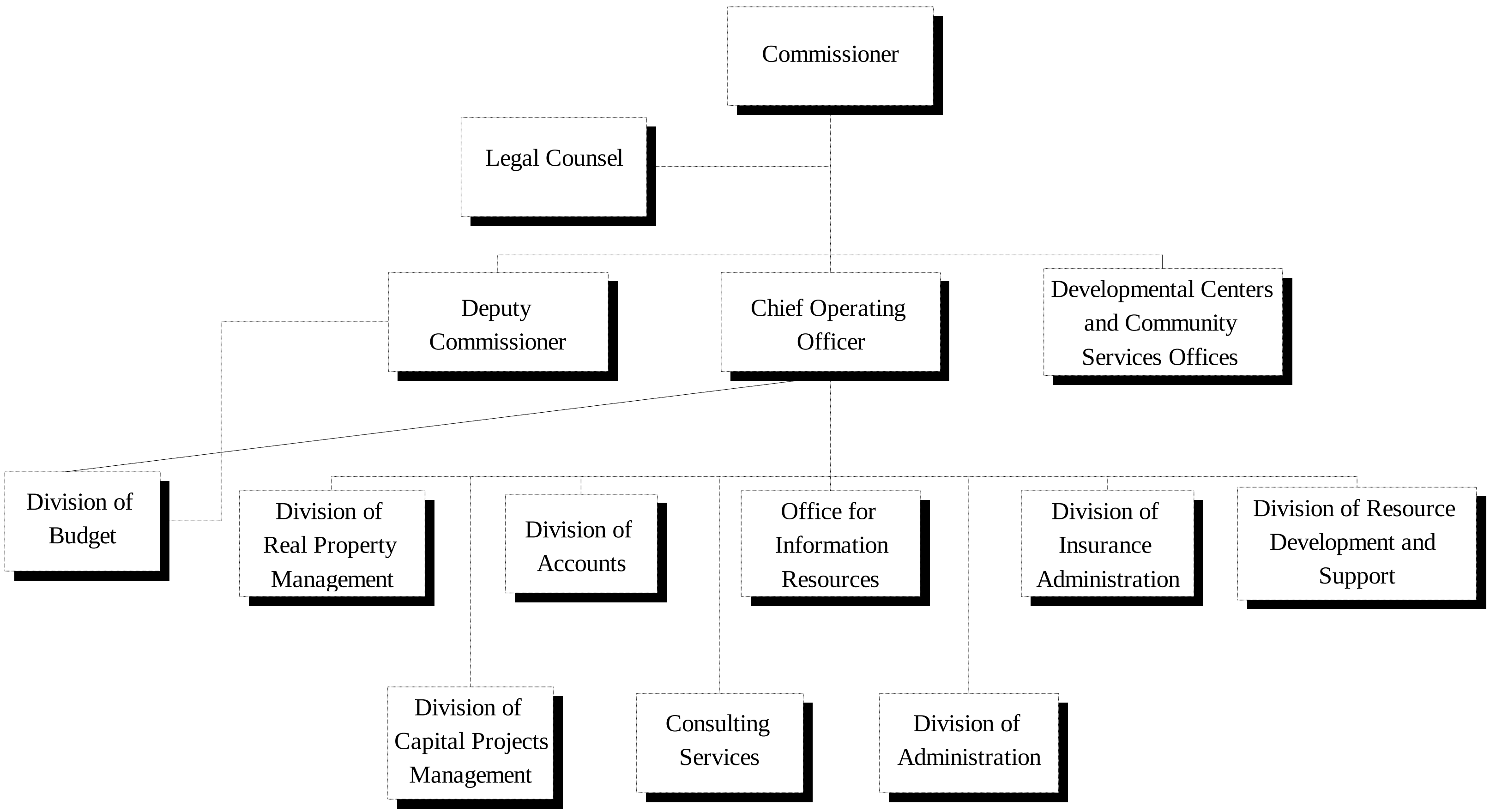
BACKGROUND

The mission of the Department of Finance and Administration is to provide financial and administrative support services for all facets of state government. The business, finance, and managerial functions of state government are centralized here; the department prepares and executes the state budget, accounts for state revenues and expenditures, operates a central data processing center, plans and reviews construction and alteration of state buildings, and controls state-owned and -leased property. Until January 3, 1997, the department also administered the TennCare Program. At that time the program was transferred to the Department of Health.

The Department of Finance and Administration contains eight divisions: Administration, Budget, Office for Information Resources, Accounts, Resource Development and Support, Capital Projects Management, Facilities Management, and TennCare Administration (until January 3, 1997). An organization chart of the department is on the following page.

Executive Order 9 transferred the management and operations of Arlington Developmental Center and the West Tennessee Office of Community Services to the Department of Finance and Administration effective February 7, 1996. In addition, Executive Order 10 transferred the management and operation of Clover Bottom, Greene Valley, and Nat T. Winston Developmental Centers and the Middle and East Tennessee Offices of Community Services to the Department of Finance and Administration effective October 14, 1996. Included in this transfer was the Central Office Programmatic and Administrative Support within the Division of Mental Retardation.

DEPARTMENT OF FINANCE AND ADMINISTRATION



AUDIT SCOPE

We have audited the Department of Finance and Administration for the period July 1, 1996, through June 30, 1997. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1997, and to the Tennessee Single Audit Report for the same period. These areas included the statewide controls administered by the Department of Finance and Administration and other state agencies. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of equipment records and billing at the Office for Information Resources (OIR), the Budget Division, billing methods in the Division of Resource Development and Support, State Building Commission contracts as well as a sample of other contracts, the Division of Real Property Management and Capital Projects Management, contingent revenue, and utilization of the department's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Also, a special investigation of activities at the Arlington Developmental Center was conducted.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Finance and Administration is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of that audit, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

The Department of Finance and Administration is responsible for maintaining the state's central accounting system and preparing the CAFR. The department, in conjunction with other state agencies, provides centralized statewide controls in the following areas:

- Statewide accounting system
- Budgets and appropriations
- Cash receipts and disbursements
- Payroll transaction processing
- Fixed asset records

As part of our audit of the CAFR, we reviewed selected controls over these areas in the Department of Finance and Administration and other state agencies.

To address our statewide audit objectives, we interviewed key department employees; reviewed applicable policies and procedures; examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; performed analytical procedures, as appropriate; assessed the accounting principles used and significant estimates made by management; and evaluated the overall financial statement presentation. Our testing focused on the propriety of financial statement presentation, the adequacy of internal controls, and compliance with applicable finance-related laws and regulations.

Our audit of the Department of Finance and Administration is also an integral part of the Tennessee Single Audit which is conducted in accordance with the Single Audit Act of 1984, as amended by the Single Audit Act Amendments of 1996. The act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal control to provide reasonable assurance that it is managing federal award programs in compliance with applicable laws and regulations.

We determined that at June 30, 1997, the Department of Finance and Administration had no federal programs which were material to the CAFR and to the Single Audit Report. The findings related to the TennCare program will be reported in the Department of Health audit report.

We have issued an unqualified opinion on the general-purpose financial statements of the State of Tennessee in our Independent Auditor's Report dated December 17, 1997, which is included in the CAFR for the year ended June 30, 1997. The Tennessee Single Audit Report for the year ended June 30, 1997, will include our reports on the Schedule of Expenditures of Federal Awards, internal controls, and compliance with laws and regulations.

As a result of our work, we determined that computer controls over the Tennessee Insurance System need improvement, as discussed in findings 1 and 2. In addition, other minor weaknesses came to our attention which have been reported to management in a separate letter.

1. <u>The Tennessee Insurance System has significant problems which have caused TIS and STARS not to reconcile</u>

Finding

The Tennessee Insurance System (TIS) has not been designed, implemented, and maintained in a manner which allows it to function efficiently and effectively. As a result, the system is not producing the desired results, and changes are being made directly to the TIS database through the Application Development Facility (ADF). Because these changes are not being made to the insurance accounting on the State of Tennessee Accounting and Reporting System (STARS), TIS and STARS do not reconcile.

Because of the many TIS problems, numerous program change requests have been made. These requests are maintained on a System Information Request Log (SIRLOG). This log shows the problem, date of request, and priority of the item. As these problems are researched and corrected through program changes or other measures, they are cleared from the log. However, the current year log included several uncleared items carried over from the prior year :

- Retroactively reinstating coverage
- Processing bad checks
- Changing participants from ineligible to eligible
- Correcting effective date problems with participants with split coverages
- Defining edits for information the state employee information system (SEIS) is not allowed to change in TIS
- Needing a "completed retro inquiry" screen showing type of retro active change, months affected, date keyed, and date updated
- Re-designing TIS notifications
- Researching the year 2000 problem

The division is using Application Development Facility (ADF), a software program, to manually adjust participants' accounts on TIS. These adjustments to participants' accounts are made directly in the TIS database rather than through transactions, an approach the Division of Insurance Administration called "going through the back door" of the system. The system's security must be overridden in order for an ADF change to be made. The division sends a request for the ADF change to the department's Information Systems Management (ISM) group, which in turn submits a request to the Office for Information Resources (OIR). OIR assigns one of its employees to make the ADF changes on the TIS database. Overriding system security to make manual adjustments is a significant deficiency in the design and operation of the system.

The Division of Insurance Administration uses ADF as a "quick fix" to correct participant balances or errors attributable to unresolved system problems. Although division staff maintain paper documentation of the ADF changes, the system has no history or record of the changes because they simply overwrite previous information in the database. If the system had been designed and functioning properly, use of ADF would not be necessary. Making changes directly to a database instead of correcting errors through properly authorized and documented transactions circumvents system controls.

In addition, when the TIS database is corrected using ADF, STARS is not updated concurrently. As a result, the two systems do not agree, nor can they be completely reconciled. Management concurred with the prior finding, stating that a work group had been established to identify and remedy problems related to reconciling TIS and STARS. The work group met several times and recommended that a new position be established in the Division of Insurance Administration to work on balancing TIS and STARS. The new employee was hired in September 1997. However, while the work group was meeting, the reconciliations were not performed by anyone. Unreconciled amounts between the daily net change in the TIS database and the cumulative accounting transactions passed from TIS to STARS daily during fiscal year 1997 ranged from $9.27 to $93,808.59.

"Certification" of insurance is an example of an accounting transaction that caused reconciliation problems. Certification occurs at month-end when employees' insurance premiums collected during the month are moved from the deferred revenue account into the revenue account. Funds that cannot be identified are considered "uncertified" amounts. We attempted to reconcile total collections according to TIS, taking into consideration the uncertified amounts, with revenue recorded in STARS. The result was a $37,749.64 unexplained difference.

Departmental memorandums state that the TIS database is correct but the accounting information on STARS is incorrect. Although STARS has been corrected to the extent possible, there can be no assurance all needed corrections have been made since not all ADF changes made to TIS were made on STARS and TIS does not maintain history records of all past transactions. We performed analytical reviews and other measures at year-end to ensure the insurance funds' financial statements presented in the state's Comprehensive Annual Financial Report were fairly stated These additional procedures would not have been necessary had all TIS activity been properly reflected on STARS.

Recommendation

TIS system problems should be corrected as soon as possible. Old items on the Systems Information Request Log (SIRLOG) should be corrected and cleared from the log. As the system problems are corrected, the use of ADF changes should be minimized and, if possible, eventually eliminated. Until that time, STARS should be concurrently updated as ADF changes are made to TIS. In addition, the work group should continue to meet until all the problems causing the unreconciled amounts are resolved and TIS and STARS can be reconciled. As problems arise in the future, causes of the problems should be quickly identified and TIS should be corrected quickly through program changes or other appropriate means.

Management's Comment

We concur. The Department of Finance and Administration has restructured to focus resources on implementing corrective action. Specifically, the Division of Insurance:

- Has transferred the duties of balancing TIS to STARS from the Division of Accounts to the Division of Insurance.
- Has established three work groups to address reengineering the information systems and focus on balancing TIS to STARS.

- Has developed a priority list for TIS enhancements (*TIS Re-Engineering Projects List*). This list is now reviewed and updated weekly instead of monthly. Items on the high priority list are included in the *Department of Finance and Administration's Annual System Plan.*
- Is evaluating several options to improve the process for correcting the TIS database. One consideration noted in the *TIS Feasibility Study* is a change in the base design and language of TIS. Also, Division of Insurance Administration is evaluating custom programs, which would allow TIS to be corrected via appropriate updates which leave clear audit trails.
- Is monitoring and tracking changes made through the Application Development Facility (ADF) for the purpose of reducing the number to zero. In March 1998, Division of Insurance Administration moved into production a COBRA 18th month eligibility programming change that will eliminate five to ten ADF changes per month.

Due to the complexities of the systems involved, management does not expect that the actions described above will resolve all reconciliation problems within the next twelve months. However, management is committed to providing both immediate and long-term resources required to implement corrective action.

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2. Controls over security for the Tennessee Insurance System should be improved

Finding

Controls over security for the Tennessee Insurance Computer System (TIS) are lacking. Two employees have unnecessary access to security maintenance screens. Also, security authorization forms identifying approved access to the system were not maintained.

Two employees, the Information Systems Manager and the Information Resource Support Specialist, have access to add, update, and delete users' security access, which is not needed to perform their job duties. Giving unnecessary access to security maintenance screens is a weakness in internal control. This weakness could result in unauthorized changes to other individuals' access allowing those individuals to enter unauthorized transactions into the system, alter data, and/or improperly modify system programs.

In addition, proper authorization for TIS access was not on file at the Division of Insurance Administration. The division was unable to locate 14 of 22 security forms (64%), and the forms for five of eight applicable users (63%) did not have the type of access requested and approved on the forms. Although user management determines and approves the type access necessary for employees to perform their job duties, actual access to TIS must be authorized in the system by the Division of Insurance Administration. Without appropriate access controls, users could inappropriately alter or delete data.

Recommendation

Management of the Division of Insurance Administration should review access to security maintenance screens to determine anyone with unnecessary or inappropriate access. The division should require complete security requests for all TIS users before authorizing users access to TIS. The security requests should specify the type access needed, the budget and work center codes, and approval by user management. The division should give only the type of access requested and approved by user management.

Management's Comment

We concur. Management has implemented the following corrective actions:

- The Division of Insurance Administration has taken steps to ensure that the Information System Manager and the Information Resource Support Specialist do not have access to security maintenance screens on TIS.
- Management has implemented corrective action by updating user authorizations. File copies of these user authorizations are maintained in a separate area. All user authorization files are now correct and complete.

OFFICE FOR INFORMATION RESOURCES (OIR)

Our objectives in reviewing this division were to determine whether

- changes to the plan for allocation of data processing costs were reasonable and justified;
- total costs and recovery amounts agreed with the working trial balance;
- amounts billed to other agencies for OIR services and equipment were correct and adequately supported;
- equipment records included a complete and valid listing of capitalizable costs of the property and equipment acquired during the period, and capitalizable costs were excluded from repair and maintenance and similar expenditure accounts;
- capitalized costs associated with all sold, abandoned, damaged, or obsolete fixed assets had been removed from the accounts;
- property and equipment were adequately safeguarded;
- the financial statement amounts were fairly stated and properly supported; and
- the financial statements were comparable to the prior year's financial statements.

We interviewed key department personnel to gain an understanding of OIR's procedures relating to changes in the cost allocation plan, billing for OIR services and equipment, and calculating depreciation expense shown in the financial statements. We tested a sample of billings for services and equipment to determine if the billings appeared proper and were adequately documented. We tested a sample of equipment items for proper location. We tested all individually significant revenue and expenditure transactions as well as a sample of all other revenue and expenditure transactions to determine if the amounts were fairly stated and properly supported. We reviewed the accumulated depreciation balances and determined on a sample basis if the balances had been computed properly. We reviewed the cost/recovery comparison to determine if there were excessive recoveries and if rates were adjusted based on this comparison. We reviewed OIR's financial statements to determine if the amounts shown on the report were properly classified and agreed to the supporting accounting records.

We had no findings related to the Office for Information Resources; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

BUDGET DIVISION

Our objectives in reviewing the Budget Division were to determine whether

- the 1996-1997 appropriation bill would reconcile to the original budget and final budget on STARS;
- the budget document contains the information required in Section 9-6-106, *Tennessee Code Annotated*; and
- the appropriation bill contains the information required in Section 9-6-108, *Tennessee Code Annotated*.

We interviewed key personnel to obtain an understanding of the procedures used. We then obtained the appropriation bill for 1996-1997 and reconciled (for a sample of agencies) the approved appropriation bill amounts to the original budget recorded on the State of Tennessee Accounting and Reporting System (STARS). We reviewed *Tennessee Code Annotated* and the budget document and the appropriation bill to determine whether they contained the required information.

We had no findings related to the Budget Division; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

DIVISION OF RESOURCE DEVELOPMENT AND SUPPORT

Our objectives in reviewing the procedures used by this division were to determine whether subrecipients were being properly monitored and whether departments and divisions which use this division to monitor their subrecipients were being properly billed for the service.

We interviewed key personnel and reviewed the procedures being used. We tested a sample of monitoring reports to determine if the reports were complete and properly documented. In addition, we tested a sample of billings to determine if the billings had adequate support and appeared proper.

We had no findings related to the Division of Resource Development and Support; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

CONTRACTS

Our objectives in reviewing the procedures related to contracts were to determine whether

- contracts were properly approved;
- contract payments complied with the terms of the contracts;
- goods and/or services paid for under the terms of these contracts were received before payment was made;
- Building Commission contracts were awarded only to reputable, experienced contractors; and
- amounts were properly accumulated for inclusion in the General Fixed Asset Account Group as construction in progress and completed buildings.

We interviewed key personnel about the procedures used and compared these procedures to the applicable laws, regulations, and policies. We tested a sample of building commission contracts, building commission projects, and personal service contracts to determine if applicable laws, regulations, and policies were being followed.

We had no findings related to contracts; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

DIVISION OF REAL PROPERTY AND CAPITAL PROJECTS MANAGEMENT

Our objectives in reviewing the procedures used by this division were to determine whether

- properly completed deeds were on file for state-owned real property and property leased by the state;
- the documentation on state-owned real property complied with the applicable laws and regulations; and
- there was adequate security over the files.

We interviewed key personnel about the procedures used and compared these procedures to the applicable laws and regulations. We then tested a sample of real property parcels to determine if there were properly completed deeds on file.

We had no findings related to this division; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

CONTINGENT REVENUE

Our objectives in reviewing contingent revenue were to determine whether

- transactions related to contingent revenue were proper;
- debit balances could be adequately explained and were proper; and
- interest on the balance was transferred in a timely manner to the account.

We obtained a schedule of contingent revenue which showed the beginning balance, all activity affecting the account, and the ending balance. A sample of transactions was tested for propriety.

We had no findings related to contingent revenue; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the Schedules of Expenditures of Federal Awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and controls concerning Policy 20. We also reviewed STARS reports and department records to determine if the department was in compliance with Policy 20. There were no findings related to this policy.

DEVELOPMENTAL CENTERS AND OFFICES OF COMMUNITY SERVICES

Our objective in reviewing the developmental centers was to follow up the previous audit finding and to determine the department's compliance with Executive Orders 9 and 10. This review disclosed that Arlington Developmental Center has apparently corrected the deficiencies noted in the prior finding except that center staff continued to divide purchases to circumvent state purchasing policies. This aspect of the prior-year audit finding has not been resolved and is discussed in finding 3. In addition, the department has not fully complied with Executive Orders 9 and 10 which are discussed in finding 4.

3. Arlington Developmental Center staff divided purchases to circumvent state purchasing policies and procedures

Finding

The prior audit disclosed that Arlington Developmental Center staff divided purchases to circumvent state purchasing policies and procedures. Management concurred with the finding and stated that a direct purchase agreement had been obtained to allow local purchase of items under $5,000 and that a procedure for developing specifications and taking competitive bids for "homelike" furniture for individual homes had been implemented. However, the dividing of furniture purchases by center staff has continued.

On four occasions, center staff divided large furniture purchases to make them appear as if they were individual purchases of less than $5,000. This action violated state purchasing policies and procedures and circumvented the involvement of the Department of General Services. The purchases involved items such as sofas, chairs, tables, and entertainment centers.

The center's Assistant Superintendent of Administration stated that these purchases were appropriate because they were made from different "cost centers" (center management considers each housing unit as a separate cost center). However, according to staff in the Department of General Services' Purchasing Division, the direct purchase agreement (DPA) allowing the center to locally purchase items under $5,000 was granted for purchases the center made as a whole, not through various cost centers.

In October 1997, support staff working on behalf of the Board of Standards (the approving body of all DPA bids) reviewed the center's purchasing activity related to the use of the DPA. Support staff recommended that the center follow the Department of General Services' purchasing policies and procedures which prohibit dividing purchases to make them appear as if they were individual purchases of less than $5,000. The support staff also recommended the center pursue establishment of agency term contracts for repetitive purchases of similar commodities. An agency term contract requires the soliciting of competitive bids with a resulting contract for a specified term. This type of contract would allow the agency to simply issue a release order against the contract without having to obtain bids for each order.

Assigning one individual the responsibility to assess the center's furniture needs as a whole and to purchase requested furniture items could provide the center substantial cost savings and ensure that the center complies with state purchasing policies and procedures . As of January 31, 1998, the center had not assigned an individual specific responsibility for furniture purchases and had not complied with state purchasing policies and procedures.

Recommendation

The Commissioner of Finance and Administration and the center superintendent should ensure that staff understand and adhere to the purchasing policies and procedures established by the Department of General Services. Center staff should consider the use of agency term contracts as recommended by the Board of Standards. The superintendent should assign an individual the responsibility of purchasing furniture for the center as a whole.

Management's Comment

We concur. Management concurs with the finding that some furniture purchases from various homes, within a short time frame, have been processed independently rather than consolidating the request into a facility order. As corrective action, management has assigned an employee in procurement the responsibility for coordinating furniture purchases. In addition, management has instructed staff to bring any questionable proposals to the attention of the Superintendent before the order is processed.

Management will explore the possibility of competitive contracts for prices for a large variety of the furniture requests that are repetitive. Management intends to comply fully with State purchasing policies and procedures.

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4. <u>The department has not complied with Executive Orders 9 and 10</u>

Finding

The Department of Finance and Administration has not fully complied with two executive orders concerning the state's developmental centers. When the federal courts demanded improvements at Arlington Developmental Center, the Governor transferred (via Executive Order 9, February 7, 1996) management and operation of the center from the Department of Mental Health and Mental Retardation (DMHMR) to the Department of Finance and Administration. (The West Tennessee Office of Community Services in DMHMR was also transferred at that time.) Executive Order 10, issued October 14, 1996, transferred to the department the remainder of the centers and their associated offices of community services: Clover Bottom Developmental Center, Greene Valley Developmental Center, Nat T. Winston Developmental Center, and the Middle and East Tennessee Offices of Community Services.

Although the orders transferred all related functions (e.g., fiscal, personnel, and property and equipment), the only apparent change has come in how management decisions regarding Arlington are made and who makes them. The Deputy Commissioner for DMHMR now reports to the Commissioner of Finance and Administration for policy matters regarding Arlington. The operations and management of the other developmental centers and the offices did not significantly change after the executive orders were issued.

- <u>Fiscal Responsibilities</u>—Part 3 of Executive Order 9 and part 2 of Executive Order 10 state, "Said Commissioner shall perform all duties and have the same authority and responsibility" with respect to the developmental centers and the offices "as the Commissioner has with other divisions or areas under the jurisdiction and control of the Department of Finance and Administration." However, the department has not taken over any fiscal responsibilities. The superintendents at the centers still approve financial transactions as DMHMR department head with very limited oversight and review by DMHMR central office fiscal staff. Neither the commissioner nor the fiscal officer of DMHMR approves these transactions. The DMHMR central office also does some payroll transactions for the developmental centers and continues to process travel claims, payroll, etc., for all staff at the offices of community services. The Department of Finance and Administration, Division of Accounts, Pre-Audit Section, continues to process transactions for the developmental centers and the offices of community services even though these transactions are approved by DMHMR personnel. No authorized official of the Department of Finance and Administration approves these transactions as directed by the executive orders.

  Part 6 of Executive Order 9 and part 4 of Executive Order 10 state that the Department of Finance and Administration "shall revise the present work programs, as well as future budgets, of the Departments affected to reflect the effect of this Executive Order." For fiscal year 1997, neither department's work programs were revised as required. Also, the 1998 budget did not reflect the changes made by these orders.

  <u>Personnel Responsibilities</u>—Part 5 of Executive Order 9 and part 3 of Executive Order 10 state that "based upon the implementation plan developed by the Commissioner of the Department of Finance and Administration, said Commissioner with the assistance and approval of the Department of Personnel shall cause to be transferred to the Department of Finance and Administration any filled or unfilled, authorized and funded positions assigned, directly or indirectly" to or performing functions relating to the

developmental centers and the offices. According to Executive Order 9, the Commissioner of Finance and Administration was to start the process of implementing this executive order on or before February 7, 1996, and was to complete the process in due time. Executive Order 10's implementation process was to start on October 14, 1996, the effective date of the order.

As of February 1998, these positions have not been transferred to the Department of Finance and Administration. All employees at the developmental centers and the offices are still on DMHMR's payroll. The payroll is not approved by any official of the Department of Finance and Administration.

- Property and Equipment—Part 7 of Executive Order 9 and part 5 of Executive Order 10 state that "all personal property, equipment and other materials available and necessary to implement the requirements of this Executive Order shall also be transferred to the custody and control of the Department of Finance and Administration." None of the property and equipment for the developmental centers or the offices has been transferred to the Department of Finance and Administration's property records.

Both departments failed to comply with the executive orders. The employees of DMHMR no longer have the legal authority to approve the expenditure of funds appropriated to the developmental centers and the offices of community services. The executive orders transferred the authority to approve the expenditure of funds to the Department of Finance and Administration, but the department has not exercised this authority and assumed this responsibility.

Recommendation

The Commissioner of Finance and Administration should ensure that the Department of Finance and Administration fully complies with Executive Orders 9 and 10 and that all transactions are consistent with applicable state laws and are initiated and approved only by those officials having the requisite legal authority and responsibility.

Management's Comment

We concur. The transfer of fiscal responsibilities, personnel and equipment pursuant to Executive Order No. 9 and 10 has not occurred because of the pendency of SB1925/HB1827 filed during the 1997 legislative session to merge the Department of Health and the Department of Mental Health and Mental Retardation (MHMR). The bill was recently withdrawn and we are taking steps to comply with the Executive Orders.

The FY 1998-1999 Appropriations Bill will be amended to include the MHMR Mental Retardation Services Division as part of the Department of Finance and Administration (F&A). The Deputy Commissioner for the Mental Retardation Services Division reports directly to the

Commissioner of F & A. The Mental Retardation Services Division includes the following budget codes:

339.21	Mental Retardation Administration
339.22	Developmental Disabilities Council
339.23	Mental Retardation Community Services
339.24	Regional Offices of Community Services
339.25	Arlington Developmental Center
339.26	Clover Bottom Developmental Center
339.27	Greene Valley Developmental Center
339.28	Nat T. Winston Developmental Center

These budget codes, which include positions, equipment and property, will be shown as part of F&A beginning July 1, 1998.

Executive Order No. 9 and 10 were not intended to transfer the MHMR Central Office to F&A. The Central Office includes the Administrative Division (339.01), i.e., human resources fiscal services, budget, information systems and Major Maintenance and Equipment (339.40). MHMR and F&A will enter into an Interdepartmental Agreement to allow the MHMR Administrative Services Division to provide administrative support and administer the Major Maintenance and Equipment appropriation for Mental Retardation Services.

Auditor’s Comment

We have asked the Attorney General and Reporter for an opinion on whether it would be legal for the Department of Mental Health and Mental Retardation and the Department of Finance and Administration to enter into this interdepartmental agreement. A response from the Attorney General and Reporter has not been received at this time.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated,* requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Finance and Administration filed its report with the Department of Audit on January 5, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Finance and Administration has corrected previous audit findings concerning OIR's equipment inventory procedures and the billing procedures of the Division of Resource and Development and Support.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning the inability to reconcile the Tennessee Insurance System and the State of Tennessee Accounting and Reporting System (STARS) and the inadequacy of controls over assets and operations at the Arlington Developmental Center. These findings have not been resolved and are repeated in the applicable sections of this report.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1997, the Department of Finance and Administration filed its compliance report and implementation plan on June 30, 1997.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans,* issued annually by the Comptroller of the Treasury.

APPENDIX

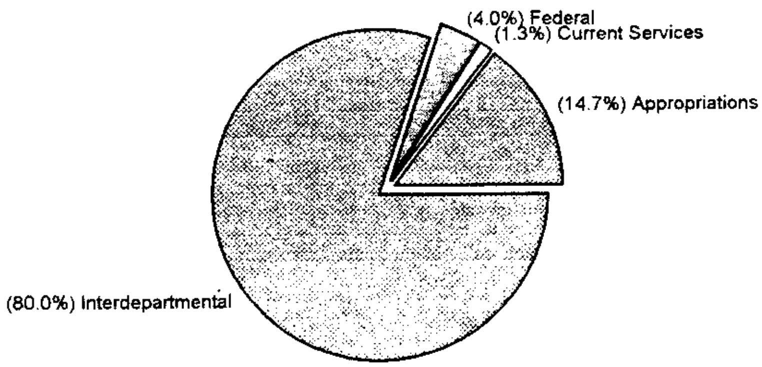
DIVISIONS AND ALLOTMENT CODES

Department of Finance and Administration divisions and allotment codes:

317.01	Executive Offices
317.02	Division of Budget
317.03	Office for Information Resources
317.04	Administrative Services
317.05	Division of Accounts
317.06	Criminal Justice Programs
317.07	Division of Resource Development and Support
317.09	Capital Projects Management
317.10	Real Property Management
317.11	Commission on National and Community Service
317.14	Office Furniture Distribution Center
317.30	Management Information Systems Fund
317.86	TIS Insurance System
317.97	Telephone Billing
339.21	Mental Retardation - Administration
339.22	Developmental Disabilities Services
339.23	Community Mental Retardation Services
339.24	Regional Offices of Community Services Center
339.25	Arlington Developmental Center
339.26	Clover Bottom Developmental Center
339.27	Greene Valley Developmental Center
339.28	Winston Developmental Center
355.00	State Building Commission

Departmental Funding Sources

Fiscal Year Ended June 30, 1997 (Unaudited)

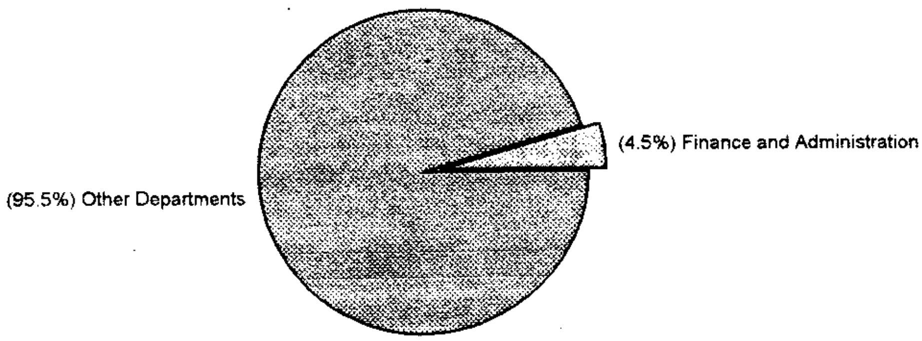


Source: Department of Finance and Administration

Note: OIR and State Building Commission are not included because they are not part of the General Fund. The Developmental Centers and other Mental Retardation Activities are included.

General Fund Expenditures

Fiscal Year Ended June 30, 1997 (Unaudited)

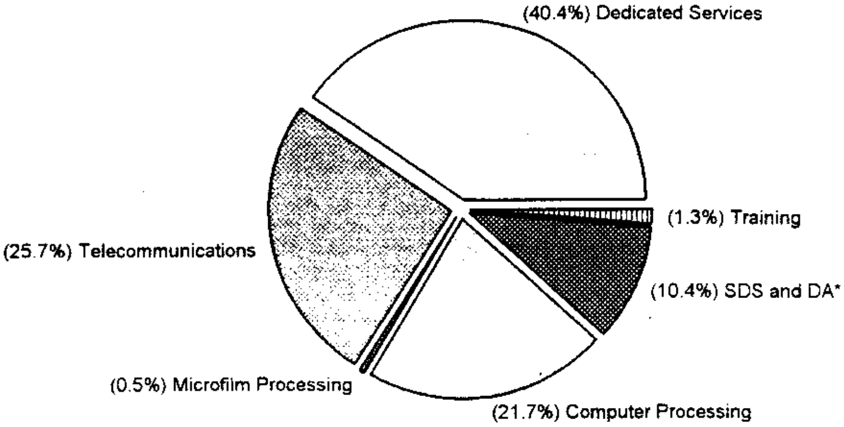


Source: Department of Finance and Administration

Note: OIR and State Building Commission are not included because they are not part of the General Fund. The Developmental Centers and other Mental Retardation Activities are included.

OIR Total Billable Services -- $125,886,180.70

Fiscal Year Ended June 30, 1997 (Unaudited)



Source: Department of Finance and Administration

*System Development and Support and Data Administration